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This proved to be particularly significant for small to medium-sized companies when internationalising, as one participant noted:

They have a very poor banking system. SMEs (small to medium-sized enterprises), up until the beginning of this year, weren't allowed to take out a loan. An individual couldn't have a credit card. So again, the ability to pay for things or invest in things is tougher. It's a cash society. People don't want to declare their cash to the government and, of course, the finance system does that. It enables the government to have that system.

**Repatriation of Profits**

Many participants were concerned about the difficulty of repatriation of profits from China. For instance, a participant in the mining industry claimed that it was difficult for them to repatriate their profits, so they have a tendency to redirect profits into new projects. Another participant used a third-party intermediary to assist them in repatriating profits, but felt that this would not have been required if regulations were clearer and better constructed. A third participant noted that it was even difficult for them to move capital around within their Chinese subsidiaries.

A legal industry participant suggested that repatriation processes had improved significantly as only a few years ago it was not possible to repatriate profits at all:

More importantly, they're able to repatriate the funds these days, which used to be very, very difficult. Funds used to be trapped in China, but now you can, if you do it properly. And we give a lot of advice to the clients as to how to set themselves up so they will be able to repatriate profits down the track. And that's quite achievable now. I often have people coming to me where we haven't set it up and they say they can't repatriate, but when we sort things out for them, then they can repatriate.

An automotive industry participant suggested that profit repatriation could be conducted successfully provided that the organisation adhered to the local regulations; however, the amount of profit repatriated had an effect on the attitude of the government towards that organisation. Repatriation of all profits without continuing local investment was perceived to mean the organisation only had a short-term interest in China which would, correspondingly, result in less support from the Chinese government:

Obviously, there's got to be some money that comes out but, again, the government views that favourably. So you do your documents correctly and you pay your taxes accordingly and we don't have a problem. But a lot of companies do. But again, I think the difference there is you're viewed as a bit of a short-term. You're there for only the short-term gain. You're pulling money out as fast as you're making every cent. Well, the government likes to see if you have a registered capital, you must have that money there. But again, I don't think it's any different to any other country. A
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little bit tougher because you’ve got to go through three departments to get money in and out, which is interesting. Even to put your dollars in you have to fill out a form.

FINANCIAL CAPACITY OF PARTICIPANTS
A large portion of the participants utilised internal equity for their internationalisation into China rather than debt finance, as highlighted in the following quote:

I don’t want to get involved in borrowing, even though theoretically I could pay it back, but I’d sooner share with our shareholder, that they take a risk and have debts to pay back, than be restricted by banks and that.

This suggests that there was a perception of reduced risk when internal equity rather than debt was utilised, because of the increased burden of interest payments. Another participant noted that it was quite difficult to raise capital for internationalisation to China:

Yep. It’s also got limitations because we’ve found it hard to raise capital. We tried to raise capital here, we’ve done it, but gee it’s been hard. So we made an announcement to the Exchange about a week ago, that we will be listing our subsidiary on the Hong Kong stock exchange and that’s part of the trip up to that. The share price here is $1.30, down from $5.35. People think we’re an accounting company. The investors here have been very erratic. So we’re going to be listing in Hong Kong and they have a different appreciation for China risk and market and the share price should be better.

A Government Defence participant stated that their internationalisation was supported by a government grant and then expanded by 20 times through internal budget allocations. An agricultural association utilised some of their membership-led revenue as well as government grants to fund their internationalisation. Their inability to fund internationalisation through debt limited the level of internationalisation they were able to undertake.

A number of participants also noted that the final cost of their internationalisation was much greater than anticipated. In most cases, unanticipated costs were the main cause. This was critical for public companies as all such expenditure needed to be reported. Transparency in investments was, therefore, considered to be an important part of internationalising, as an IT industry participant noted:

As a publicly-listed company, we had brought in the analysts and so forth, so you’ve got to be mindful of the reasons and what you’re doing in investments, say, tend to be relatively transparent. There are times when you wish you weren’t and were a private company and able to invest as you want. But for us, we’ve got good financial capabilities – it’s a very strong business – but we can’t spend it in a silly way. The shareholders hold you accountable.
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One important aspect of this transparency is the development of an appropriate proposal that clearly articulated the purpose and objectives of the internationalisation. Where acquisitions or partnerships were involved, this would also involve due diligence checks. As an engineering industry participant noted:

... within reason it was a fair price. However, particularly with a private company, there is always suspicion. You can go and buy the bakery down the road and they will have four sets of books. Two is not enough today. You need maybe four. So you need to really understand the business that you intend to acquire. You need to understand the markets that that business is servicing. You may not be able to understand or find out who all the customers are, but (with your reconnaissance skill) then you should. In a nutshell, ignorance is no excuse.

Due diligence and investigations in China were generally reported by the participants to be time-consuming exercises. In particular, the quality of the information about an organisation being considered for partnership or acquisition needed to be tested. One of the common traps identified by the participants, even if they could be reasonably confident that the organisation was financially strong, was that outstanding debts to suppliers and other commitments which made the acquisition or partnership less attractive may not have been identified.

THE IMPACT OF FREE TRADE NEGOTIATIONS BETWEEN AUSTRALIA AND CHINA

Participants noted positive, negative and neutral aspects to the impact of the FTA between Australia and China. Quite a few participants were fairly neutral about the FTA. Although they thought that it could create opportunities, they found that it had no effect, as the following quotes demonstrate:

... we are selling at a local price, so we need to be locally competitive in RMB, so currencies don’t trade ... We’re not exporting.

... we’re making a product in China through a local partner, who is selling that product in China. So we don’t need to deal with any of those trade issues. So then there haven’t been impediments, from that perspective.

... they need us, so maybe the tariffs, at this point, are down fairly low [without the FTA].

One participant expressed the opinion that, irrespective of an FTA, China would impose other forms of non-tariff barriers that would impede genuine free trade with China:

... there is no such thing as a level playing field with China. If they remove duties they will impose domestic taxes on imported product.

One participant suggested that the FTA would generally be in China’s best interest because of the extra trade it would create and the fact that it is a low threat to Chinese exports, in any case.
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I think as China continues to enjoy economic and political success on a global scale, I think they'll gradually find it in their interests and not a threat to allow foreign interests to play a role. They shouldn't be worried about it because I think the general way you cut and slice it, foreign activity in China will always represent a minority of whatever goes on in China, and I think, by and large, could play a valuable role and is part of the globalisation of trade and economics.

Several participants were of the opinion that the FTA should provide Australian companies with the same rights in China as a Chinese organisation would have if they internationalised to Australia. One example of these rights would be the ability to employ locally registered professionals. A legal industry participant noted that this right was important because foreign lawyers do not get the same treatment as domestic lawyers in China.

"... we should have exactly the same rights, obligations, access as ... we would have if they came into Australia. We think FTAs are probably the only means that we will achieve that and it's an admission that's never been delivered to date."

Some participants relied quite heavily on the rights the FTA would provide for their internationalisation into China, as the following quote indicates:

"I think that it's not going to have a massive influence on what we do, but I am very sure that the inception of this program that they are finalising now in terms of tariff reduction etc., has been pretty fundamental to why we exist."

According to one participant, price agreements were negotiated with the Chinese government separately to FTAs where large value imports to China, such as resources, were involved. As a result, the FTA had no impact on this trade. In addition, participants importing products from China into Australia viewed the FTA as having little impact as well because of Australia's general trading policies, as indicated by the following quotes:

"... getting rid of tariffs on stuff, that's sort of very much at the margin... and, Australia is almost free trade now. What difference is it really going to make?"

Small Companies

Small company participants suggested that the FTA would be binding for them regarding prices.

"... at the corporate level, you've got no decision to make because you're controlled and governed by the agreement between the two countries ..."

Another participant pointed out that this could change, however, because China was currently acquiring large businesses in other countries. This could result in a renegotiation of the FTA if Chinese FDI interests in other countries became too strong. Some participants were concerned about further negotiations around the FTA, as Australia's track record with achieving equity in free trade agreements was perceived to
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be poor. This possibility would make internationalisation planning quite difficult. As one participant noted:

*One example of free trade agreement consequences with us was the FTA that went in with Thailand. Within two weeks we had notification that we'd lost a fairly significant contract, which was now going to be made up in Thailand.*

Probably the most negative opinion expressed by the small company participants was that opening free trade between Australia and China was likely to shift even more Australian operations to China than had already occurred.

If China and Australia had a free trade agreement it would place more of our business under threat here in Australia. But it may potentially enable us to export more out of China.

*So for us, the export is not sustainable long-term ... that's why we were trying to find a manufacturing base in China [automotive manufacturer].*

THE IMPACT OF CHINA'S ACCESSION TO THE WORLD TRADE ORGANISATION

It was suggested that the positive benefits of China joining the WTO in 2001 outweighed the negative impacts for Australia. The reductions to significant trade barriers in some areas of trade, the increased transparency in regulations, reduction of profit repatriation difficulties and the increase in Intellectual Property (IP) protection were generally considered to be significant benefits. The negative concerns focused primarily on how successful the WTO would be in ensuring that fund repatriation and IP rights, such as trademarks, would be respected at the level necessary to eliminate the current problems in these areas.

The participants were of the opinion that accession to the WTO would help China's economic growth, which, in turn, made internationalisation into China more attractive:

*... joining WTO is helping their economy and it's opening up a lot of potential opportunities there ...*

*... it's just another tick in the box. I couldn't say how it has improved our business but it makes the climate better.*

*... the general things around transparency that come from China now being a member of the WTO, bring the economy along to something that all of us are more used to.*

For the participants, a particularly important outcome of China's membership of the WTO was the removal of heavy import trade tariffs. It is thought this will both support imports into China as well as drive Chinese industry to become more competitive (in areas in addition to costs, such as quality):
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...WTO means that for them, they can't impose heavy trade tariffs on products imported into China, so they can't protect their own industry.

The banking system is freeing up as part of the WTO. So retail banking is now starting to come into China.

One participant observed that China's accession to the WTO has accelerated the country's infrastructure development. Other participants believed that the increased international trade, coupled with increased regulatory certainty when dealing with China, would increase the level of FDI (and possibly also local investment):

Now, if those sorts of developments help clarify and simplify and bring China into the normal international trade-type of arrangement, that's good. That would be the biggest hassle. And then policy certainty or regulatory certainty in China would be the next thing.

... the better the market is for Australian industry, the more resources we will put to China. I think that was one of the catalysts for our timing to enter.

The participants were also of the view that deregulation of China's industry sectors through WTO membership could also increase economies of scale in these sectors in other countries - as has occurred with the global resources industry. In addition, the greater protection for IP under WTO accession conditions was considered by the participants to be particularly important, given the difficulties of protecting IP in China at present:

China has not had a great reputation or respect for intellectual property and they now have to.

I think China has now complied with all its WTO obligations. Now, it's still got a way to go in controlling piracy of intellectual property ...

We've got two granted patents in China already and we've got three pending ones as well.

Although China had already been a member of the WTO for six years when this research was conducted, some participants noted that non-WTO-compliant trade barrier mechanisms such as export-driven tax reductions were still in place, although these were being reduced. One of the major concerns identified was that funds repatriation had still not been improved by WTO accession, although the participants were hopeful that it would improve over time:

... the biggest issues are currency and repatriation of funds.

... if those sorts of developments [WTO accession] help clarify and simplify and bring China into the normal international trade-type of arrangement, that's good.
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A similar identified concern was that trademarks and industry identifications continued to be misused in China, despite the WTO agreements to respect them:

... they don’t police it in China so every little Tom, Dick and Harry is making woollen products, puts the wool mark on them – and they’ve got synthetics in them and ... so it’s very difficult.

Some participants were more ambivalent about the value of China’s WTO accession for their internationalisation into China:

I’d say from a specific practical point of view, it hasn’t yet particularly changed any of our activity. We are very conscious of it, but it hasn’t led to any specific change to any of our offshore programs that I’m aware of as a result of that.

I haven’t heard of it making an impact on us. I don’t think so. We don’t have any big issues in remitting funds out of China at the moment.

It’s not going to have any impact on us. If anything, it’s going to accelerate the political system more than anything else. I think it’s all pretty high macro level, rather than what we’re dealing in. So I don’t think it’s going to have any impact at all.

Some participants viewed China’s role in balancing western economic power in WTO decision-making as a significantly positive consequence for global business:

I think the WTO scenario is an interesting one because, at the moment, people will look at that from the perspective of the impositions that the WTO places on China. I think in the next period of time, we’re going to see the impact that China has on the WTO itself.

Several participants commented on the complexity of the effects of WTO membership, and that the second- and third-level effects of the reduction in trade barriers between China and other countries (such as the US) would have a flow-back effect on trade with countries such as Australia:

When changes in other markets are made to protection, whether it be in Europe or in the States, that obviously affects the whole supply. Trade in other countries will affect trade opportunities here in Australia, as well as in China.

CONCLUSION

This research project has determined that establishing a business in China presents unique challenges. The impact and perception of China’s financial system was found to have affected the internationalisation plans of the participants, as a result of the impact on the exchange rate, difficulties in managing repatriation and banking procedures. To finance internationalisation into China, most of the participants relied on internal equity finance, rather than raising capital through debt. The participants were generally of the view that debt finance increased risk and constraints, although the use of internal equity limited the levels of internationalisation and introduced cash flow issues.
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The participants noted that they did not always anticipate all the costs of internationalising to China. This led to difficulty in generating sufficient capital in some cases. However, government organisations generally found that they were able to attract government funding for internationalisation into China. Determining fair value of a partner or acquisition target was a particular concern for some participants. It is recommended that a transparent proposal be established initially for the funding of internationalisation to identify these issues. Companies are advised to carefully carry out their due diligence processes. This is to ensure that any acquired Chinese businesses and partners do not introduce unanticipated problems.

Most of the participants perceived the FTA between Australia and China to have had a significant impact on conducting business in China. Some participants suggested that this agreement should also provide Australian businesses with the same rights as Chinese businesses have in China. Others, however, felt that the FTA would not reduce tariffs further and would have little overall effect. A number of participants suggested that the FTA would have no effect on them at all because they produced and sold products within China and were not involved in trade with Australia. A number of participants noted that, in their industry, tariffs were already low so the FTA would have little impact on facilitating trade. Some participants were concerned that more Australian operations would move to China and some Australian business would be sold to Chinese organisations because of the FTA.

In contrast to their comments on the FTA, most participants viewed China’s accession to the WTO to be very positive. Generally, the participants felt that this would make Chinese business conditions more similar to those of Western countries by increasing infrastructure development, deregulating local industry, increasing IP protection and reducing trade barriers. The participants continued to be concerned, however, about the limited impact on their ability to repatriate profits from China.

These findings suggest that, at a practical level, research, knowledge and strategic planning are crucial to the success of investment in China.
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REFERENCES


